

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Financial Statements

June 30, 2011



## Independent Auditors' Report

**Board of Trustees  
Firefighters' Pension Trust Fund  
City of Stamford, Connecticut**

We have audited the statement of plan net assets of the City of Stamford, Connecticut Firefighters' Pension Trust Fund (the "Fund") as of June 30, 2011 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Board of Trustees of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present the financial position of the City of Stamford, Connecticut, and changes in its financial position and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fund as of June 30, 2011, and the related changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedules of funding progress and employer contributions are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

*O'Connor Davies Munns & Dobbins, LLP*

Stamford, Connecticut  
January 5, 2012

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Statement of Plan Net Assets

June 30, 2011

**ASSETS**

Cash and short-term investments	\$ 3,985,572
Investments, at fair value	164,396,863
Employer contribution receivable	429,250
Accrued interest receivable	<u>306,666</u>

Total Assets 169,118,351

**LIABILITIES**

TALF Financing	<u>39,384,743</u>
----------------	-------------------

Net Assets Held in Trust for Pension Benefits \$ 129,733,608

See notes to financial statements

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Statement of Changes in Plan Net Assets

Year Ended June 30, 2011

**ADDITIONS**

Investment Income

Net appreciation in fair value of investments	\$ 18,966,974
Interest and dividends	<u>2,503,452</u>

21,470,426

Less investment expenses	<u>(1,518,479)</u>
--------------------------	--------------------

Total Investment Income	<u>19,951,947</u>
-------------------------	-------------------

Contributions

Employer	1,717,000
Employee	<u>1,231,719</u>

Total Contributions	<u>2,948,719</u>
---------------------	------------------

Total Additions	22,900,666
-----------------	------------

**DEDUCTIONS**

Benefit payments	<u>6,985,483</u>
------------------	------------------

Net Increase	15,915,183
--------------	------------

**NET ASSETS HELD IN TRUST FOR PENSION BENEFITS**

Beginning of year	<u>113,818,425</u>
-------------------	--------------------

End of year	<u><u>\$ 129,733,608</u></u>
-------------	------------------------------

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Notes to Financial Statements

**1. Reporting Entity and Plan Description**

***Reporting Entity***

The Firefighters' Pension Trust Fund (the "Fund") of the City of Stamford, Connecticut (the "City") is reported as a Fiduciary Fund in the City's basic financial statements.

The financial statements present the Fund's financial position only and do not purport to, and do not, present the financial position of the City of Stamford, Connecticut and the changes in its financial position and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Covered Employees***

Coverage is extended to all full-time firefighters employed by the City.

***Summary of Benefit Provisions***

The Fund is a contributory single employer defined benefit plan authorized under the collective bargaining agreement between the City and Local 786 of the International Association of Firefighters (the "Union"). The Fund is supported by the joint contributions of its members and the City.

Retirement benefits are payable to members with 20 years of service and for firefighters hired in 1981 or later, after attainment of age 48. Members who reach age 65 with less than 20 years of service are also eligible for benefits. Upon retirement, annual benefits are paid equal to 50% of final salary, as defined, plus 2% for each year of service over 20 years, up to a maximum pension of 74% of final salary. The Plan allows employees to exchange vacation leave for up to 7.5% additional pension credit (1.5% per 20 days).

Disability benefits are payable at 50% to 100% of salary during the member's last year of service at date of disability, but not less than the accrued retirement benefit. If members are terminated from the City, they may elect a withdrawal benefit equal to a refund of employee contributions without interest. The Plan also provides lump sum death benefits for beneficiaries primarily equal to a refund of employee contributions without interest, less benefits paid. Death benefits can also be paid to beneficiaries as an annuity equal to 50% of salary at the time of death.

Employees should not rely solely upon this synopsis of pension benefit provisions. The City's Charter, together with the pension provisions of the collective bargaining agreement, are at all times the official source of plan provisions.

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Notes to Financial Statements

**1. Reporting Entity and Plan Description (*continued*)**

***Contributions***

The City is required to contribute the greater of an actuarially determined rate or minimum contribution required by the collective bargaining agreement. By City Charter, contribution requirements of the Fund's members and the City are established and may be amended by the collective bargaining agreement between the Union and the City.

The City's contribution to the Fund is actuarially determined and is intended to set aside amounts to cover the cost related to both current and future services rendered by its members. In order to arrive at the City's annual contribution, these costs are spread over the aggregate working lifetime of active participants as a function of actual current and assumed future payroll.

Fund members are required to contribute 6.25% of their salary until they have reached 32 years of credited service.

***Trust Fund Managed by Merrill Lynch, Pierce, Fenner & Smith, Incorporated***

Under the terms of a trust agreement between Merrill Lynch, Pierce, Fenner & Smith, Incorporated (the "Custodian") and the Fund, the Custodian administers a Trust on behalf of the Fund. Investment managers have been granted discretionary authority concerning purchases and sales of investments in the trust.

**2. Summary of Significant Accounting Policies**

***Basis of Accounting***

The financial statements were prepared using the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

The accounting policies of the Fund predominantly follow Governmental Accounting Standards Board ("GASB") guidance, which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**City of Stamford, Connecticut**  
**Firefighters' Pension Trust Fund**

Notes to Financial Statements

**2. Summary of Significant Accounting Policies *(continued)***

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of additions and deductions as reflected in the statement of changes in net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

***Investment Valuation and Income Recognition***

Investments are reported at fair value. Investment assets consist principally of short-term investments, United States Government and agency securities, common and preferred stocks, corporate bonds, and alternative investments. Short-term investments are stated at cost, which approximates fair value. Fair value of other securities is determined by the means of the most recent bid and asked prices as obtained from dealers that make markets in such securities. The fair value of the hedge funds has been estimated using the net asset value ("NAV") as reported by the management of the fund. FASB guidance provides for the use of NAV as a "*Practical Expedient*" for estimating the fair value of alternative investments. NAV reported by the hedge funds is used as a practical expedient to estimate the fair value of the Plan's interest therein. Investments in other alternative investments for which market quotations are not readily available are valued at the fair values as determined by the fund managers. All such assets are carried at fair value; losses are incurred only up to the assets invested. The fair value of the Term Asset-Backed Securities Loan Facility ("TALF") debt and repurchase agreements are based on an expected present value technique. This method discounts future estimated cash flows using rates that best reflect current interest rates that would be offered for loans with similar characteristics and credit quality. Private placement securities are valued at an estimated fair value as determined by the fund managers. Factors considered in valuing private placements include: the cost, restrictions on disposition, prices of recent additional financings by the same issuer, changes in the financial condition of the issuer, pending mergers and acquisitions, and estimates of liquidation value. Private placement securities of a public company are priced daily at a 20% discount to market price. The discount is removed when the security becomes freely tradable (marketable). Private placement securities of private companies are carried at cost at acquisition. Adjustments to the pricing of the private placement will be made upon the occurrence of significant events as determined by the fund manager.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Fund's gains and losses on investments bought and sold as well as held during the year.

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Notes to Financial Statements

**2. Summary of Significant Accounting Policies *(continued)***

***Accounting for Uncertainty in Income Taxes***

The Fund recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Fund had no uncertain tax positions that would require financial statement recognition or disclosure. The Fund is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2008.

***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is January 5, 2012.

**3. Annual Pension Cost and Net Pension Obligation**

The City's annual pension cost ("APC") and net pension obligation (asset) to the Fund for the year ended June 30, 2011 (rounded to the nearest thousand) are as follows:

Annual required contribution	\$ 1,717,000
Interest on net pension obligation	3,000
Adjustment to annual required contribution	<u>(4,000)</u>
APC	1,716,000
Contribution made	<u>(1,717,000)</u>
Decrease in net pension obligation	(1,000)
Net pension obligation, beginning of year	<u>38,000</u>
Net pension obligation, end of year	<u>\$ 37,000</u>

Membership in the Fund consisted of the following at July 1, 2010, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	209
Terminated plan members entitled to, but not yet receiving benefits	0
Terminated plan members entitled to a refund of employee contributions but have elected to defer receipt	1
Active plan members	<u>268</u>
	<u>478</u>

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Notes to Financial Statements

**3. Annual Pension Cost and Net Pension Obligation (continued)**

The trend information for the years ended June 30 are as follows:

Fiscal Year	APC	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	\$ 1,716,000	100.1%	\$ 37,000
2010	405,000	100.2%	38,000
2009	416,000	15.6%	39,000

**4. Investments**

Investments at June 30, 2011 consist of the following:

Corporate bonds	\$ 14,320,316
U.S. Government Obligations	8,662,204
Alternative investments	18,499,312
TALF	43,587,732
Domestic and international common/ preferred stocks	<u>79,327,299</u>
	<u>\$ 164,396,863</u>

The Fund's investment policy targets an asset mix to provide the probability of meeting or exceeding the return objectives at the lowest possible risk and remain in accordance with state statutes. The asset allocation is as follows:

	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Equities	40%	70%
Bonds	20%	60%

The following investment represents 5% or more of the Fund's net assets held in trust for pension benefits at June 30, 2011:

Beach Point Access Ltd	\$ 9,875,078
------------------------	--------------

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Notes to Financial Statements

**4. Investments (continued)**

The Fund's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity.

Private placements are restricted securities that are not registered with the Securities and Exchange Commission for public sale in the United States of America. These securities may have contractual restrictions on resale and may be revalued under methods approved by the fund manager as to fair value. A security may be considered illiquid if it lacks a readily available market.

The following are the minimum ratings for corporate bonds as of June 30, 2011:

<u>Average Rating</u>	<u>Amount</u>
A1	\$ 1,075,620
A2	527,030
A3	1,286,393
Aa1	186,268
Aa2	440,033
Aa3	331,002
B1	1,449,795
B2	2,525,396
B3	2,476,935
Ba1	127,499
Ba2	254,781
Ba3	747,643
Baa1	855,870
Baa2	1,070,149
Baa3	100,307
Caa1	606,006
Caa2	35,438
Caa3	<u>224,151</u>
	<u>\$ 14,320,316</u>

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Notes to Financial Statements

**4. Investments (continued)**

The Fund's investments in U.S. Government obligations and corporate bonds mature as follows:

Type of Investment	Fair Value	Investments Maturities (Years)			
		Less than 1 Year	1-5 Years	6-10 Years	Over 10 Years
Corporate bonds	\$ 14,320,316	\$ 379,867	\$ 3,924,394	\$ 8,533,030	\$ 1,483,025
U.S. Government obligations	<u>8,662,204</u>	<u>634,733</u>	<u>3,234,684</u>	<u>2,411,904</u>	<u>2,380,883</u>
	<u>\$ 22,982,520</u>	<u>\$ 1,014,600</u>	<u>\$ 7,159,078</u>	<u>\$ 10,944,934</u>	<u>\$ 3,863,908</u>

The Plan currently invests in several hedge funds which are: ML Fortress Partners Offshore Fund L.P., ML Private Equity Fund LLC, Global Macro HedgeAccess Ltd., Ivy Rising Stars Access Ltd., and Beach Point Access Ltd. (collectively the "Funds"). Each Fund is a fund of diversified funds with a broad investment objective. There is no obligation for the Plan to make future contributions to the Funds. The redemption frequency of the Funds ranges from quarterly to annually.

**5. Investments under the Term Asset-Backed Securities Loan Facility ("TALF")**

On November 25, 2008, the U.S. Treasury Department and the Federal Reserve announced the creation of the TALF. The TALF is intended to make credit available to consumers and businesses on more favorable terms by facilitating the issuance of asset-backed securities and improving the market conditions for asset-backed securities generally. Under TALF, the Federal Reserve makes non-recourse loans, with terms ranging from three to five years, to borrowers to fund purchases of asset-backed securities to any eligible borrower owning eligible collateral. The underlying credit exposures of eligible asset-backed securities must be auto loans, student loans, credit card loans, equipment loans, floorplan loans, insurance premium finance loans, small business loans fully guaranteed as to principal and interest by the U.S. Small Business Administration, or receivables related to residential mortgage servicing advances. The U.S. Treasury Department will provide \$20 billion of credit protection to the Federal Reserve in connection with TALF. TALF was closed for new loan extensions against newly issued commercial mortgage-backed securities on June 30, 2010, and for new loan extensions against all other types of collateral on March 31, 2010. Therefore, there is no obligation for the Fund to make future contributions. The Fund makes interest payments on TALF loans from the interest paid to the Fund on the assets used as collateral for the TALF loans. To the extent that the Fund receives distributions from pledged assets in excess of the required interest payments on the TALF loans during any loan year, the amount of excess interest may be retained by the Fund.

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Notes to Financial Statements

**5. Investments under the Term Asset-Backed Securities Loan Facility ("TALF")  
(continued)**

Bank of New York Mellon serves as the custodian for all TALF assets of the Fund. At June 30, 2011, the Fund had a total portfolio value of \$43,587,732 and secured borrowings of \$39,384,743 under TALF. The net value of the Fund's investment in TALF was \$4,202,989. Interest rates range from 2.347% to 6.35%. As of June 30, 2011, the Fund's contractual commitments under TALF of \$39,384,743 are due within two to four years.

**6. Actuarial Assumptions and Schedule of Funding Progress**

The actuarial assumptions and methods used for the July 1, 2010 actuarial valuation were based on July 1, 2010 data, cost information and assumptions. A full valuation was performed as of July 1, 2010 and the next full valuation will be as of July 1, 2012 (performed every two years as permitted by GASB Statement No. 45 guidance). The actuarial assumptions and methods used as of July 1, 2010 are as follows:

Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount
Remaining amortization period	15 years (open)
Asset valuation method	Actuarial value of assets recognizing 20% of the difference between expected actuarial value and actual market value each year ("smoothed market"). The actuarial value is limited to a minimum of 70% or a maximum of 130% of market value.
Investment rate of return	8.00%
Projected salary increases	4.50%
Mortality table	1983 Group Annuity Mortality Table

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Schedule of Funding Progress		Covered Payroll	UAAL as a Percentage of Covered Payroll
			(Underfunded ) Overfunded AAL ("UAAL")	Funded Ratio		
07/01/10	\$ 130,796,000	\$ 133,421,000	\$ (2,625,000)	98.0%	\$ 21,663,000	-12.1%

There was a change in the current year valuation in which the City changed its funding policy and will now contribute at the beginning of each fiscal year. This change reduced the City's annual required contribution.

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Notes to Financial Statements

**7. Risks and Uncertainties**

The assets of the Fund are primarily financial instruments which are monetary in nature. Accordingly, interest rates have a more significant impact on the Fund's performance than do the effects of the general levels of inflation. Interest rates generally do not move in the same direction or with the same magnitude as prices of goods and services as measured by the consumer price index. Investments are subject to risk conditions of the individual investment's objectives, stock market performance, interest rates, economic conditions and world affairs. Due to the level of risk associated with the Fund's investments, it is reasonably possible that changes in the values of the Fund's investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Plan contributions are made to the Fund based on the actuarial valuation. The actuarial valuation is based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

***Interest Rate Risk***

The Fund limits its exposure to realized losses arising from changes in interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity.

The interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. See note 4 for the maturities of such investments.

***Credit Risk***

The credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. See note 4 for the rating of such securities.

***Custodial Credit Risk***

This is the risk that in the event of the failure of a counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Supplementary Information

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Schedule of Funding Progress

June 30, 2011

	07/01/10	07/01/09	07/01/08	07/01/07	07/01/06	07/01/05
Actuarial value of plan assets (a)	\$ 130,796,000	\$ 131,369,000	\$ 138,360,000	\$ 134,356,000	\$ 124,131,000	\$ 118,681,000
Actuarial accrued liability (AAL) (b)	133,421,000	130,475,000	123,434,000	119,150,000	113,830,000	109,365,000
Overfunded (underfunded) actuarial accrued liability (UAAL) (b-a)	(2,625,000)	894,000	14,926,000	15,206,000	10,301,000	9,316,000
Funded ratio (a/b)	98%	100.7%	112.1%	112.8%	109.0%	108.5%
Annual covered payroll (c)	21,663,000	19,292,000	18,461,000	18,835,000	16,864,000	17,503,000
UAAL as a percentage of covered payroll ((b-a)/c)	-12.1%	4.6%	80.9%	80.7%	61.1%	53.2%

See independent auditors' report

**City of Stamford, Connecticut  
Firefighters' Pension Trust Fund**

Schedule of Employer Contributions

June 30, 2011

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution *</u>	<u>Percentage Contributed</u>	<u>Actual Contribution *</u>
2011	\$ 1,717,000	100.0%	\$ 1,717,000
2010	406,000	100.0%	406,000
2009	406,000	16.0%	65,000
2008	409,000	154.0%	630,000
2007	741,000	145.0%	1,073,000
2006	784,000	68.0%	530,000

\* - Rounded to the nearest thousand.